BP PRUDHOE BAY ROYALTY TRUST
Form 10-Q
November 09, 2007

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-10243

BP PRUDHOE BAY ROYALTY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-6943724
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
The Bank of New York, 101 Barclay Street, New York, NY	10286
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: (212) 815-6908

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No þ

As of November 9, 2007, 21,400,000 Units of Beneficial Interest were outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

BP Prudhoe Bay Royalty Trust
Statement of Assets, Liabilities and Trust Corpus
(Prepared on a modified basis of cash receipts and disbursements)
(In thousands, except unit data)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Royalty Interest, net (Notes 1, 2 and 3)	$ 6,528	$ 8,034
Cash and cash equivalents (Note 2)	1,011	1,010
Total Assets	$ 7,539	$ 9,044
Liabilities and Trust Corpus		
Accrued expenses	$ 382	$ 191
Trust Corpus (40,000,000 units of beneficial interest authorized, 21,400,000 units issued and outstanding)	7,157	8,853
Total Liabilities and Trust Corpus	$ 7,539	$ 9,044

See accompanying notes to financial statements (unaudited).

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BP Prudhoe Bay Royalty Trust
Statements of Cash Earnings and Distributions
(Prepared on a modified basis of cash receipts and disbursements)
(Unaudited)
(In thousands, except unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Royalty revenues	$ 44,164	$ 55,797	$ 126,620	$ 148,719
Interest income	21	22	61	54
Less: Trust administrative expenses	(767)	(279)	(1,327)	(732)
Cash earnings	$ 43,418	$ 55,540	$ 125,354	$ 148,041
Cash distributions	$ 43,415	$ 55,538	$ 125,353	$ 148,042
Cash distributions per unit	$ 2.0287	$ 2.5952	$ 5.8576	$ 6.9179
Units outstanding	21,400,000	21,400,000	21,400,000	21,400,000

See accompanying notes to financial statements (unaudited).

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BP Prudhoe Bay Royalty Trust
Statements of Changes in Trust Corpus
(Prepared on a modified basis of cash receipts and disbursements)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Trust Corpus at beginning of period	$ 7,250	$ 9,747	$ 8,853	$ 10,876
Cash earnings	43,418	55,540	125,354	148,041
(Increase) decrease in accrued expenses	406	(46)	(191)	(167)
Cash distributions	(43,415)	(55,538)	(125,353)	(148,042)
Amortization of royalty interest	(502)	(502)	(1,506)	(1,507)
Trust Corpus at end of period	$ 7,157	$ 9,201	$ 7,157	$ 9,201

See accompanying notes to financial statements (unaudited).

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BP Prudhoe Bay Royalty Trust
Notes to Financial Statements (Unaudited)
(Prepared on a Modified Basis of Cash Receipts and Disbursements)
September 30, 2007

(1) Formation of the Trust and Organization

BP Prudhoe Bay Royalty Trust (the Trust), a grantor trust, was created as a Delaware business trust pursuant to a Trust Agreement dated February 28, 1989 (the Trust Agreement) among The Standard Oil Company (Standard Oil), BP Exploration (Alaska) Inc. (BP Alaska), The Bank of New York (the Trustee) and The Bank of New York (Delaware), as co-trustee. Standard Oil and BP Alaska are indirect wholly-owned subsidiaries of BP p.l.c. (BP).

On February 28, 1989, Standard Oil conveyed an overriding royalty interest (the Royalty Interest) to the Trust. The Trust was formed for the sole purpose of owning and administering the Royalty Interest. The Royalty Interest represents the right to receive a per barrel royalty (the Per Barrel Royalty) of 16.4246% on the lesser of (a) the first 90,000 barrels of the average actual daily net production of oil and condensate per quarter or (b) the average actual daily net production of oil and condensate per quarter from BP Alaska s working interest as of February 28, 1989 in the Prudhoe Bay Field situated on the North Slope of Alaska (the BP Working Interests). Trust Unit holders are subject to the risk that production will be interrupted or discontinued or fall, on average, below 90,000 barrels per day in any quarter. BP has guaranteed the performance of BP Alaska of its payment obligations with respect to the Royalty Interest.

The trustees of the Trust are The Bank of New York, a New York banking corporation, and The Bank of New York (Delaware), a Delaware banking corporation. The Bank of New York (Delaware) serves as co-trustee in order to satisfy certain requirements of the Delaware Statutory Trust Act. The Bank of New York alone is able to exercise the rights and powers granted to the Trustee in the Trust Agreement.

The Per Barrel Royalty in effect for any day is equal to the price of West Texas Intermediate crude oil (the WTI Price) for that day less scheduled Chargeable Costs (adjusted for inflation) and Production Taxes (based on statutory rates then in effect). See Note 5 for information concerning a change in Alaska oil and gas production taxes which affects the calculation of the Per Barrel Royalty.

The Trust is passive, with the Trustee having only such powers as are necessary for the collection and distribution of revenues, the payment of Trust liabilities, and the protection of the Royalty Interest. The Trustee, subject to certain conditions, is obligated to establish cash reserves and borrow funds to pay liabilities of the Trust when they become due. The Trustee may sell Trust properties only (a) as authorized by a vote of the Trust Unit holders, (b) when necessary to provide for the payment of specific liabilities of the Trust then due (subject to certain conditions) or (c) upon termination of the Trust. Each Trust Unit issued and outstanding represents an equal undivided share of beneficial interest in the Trust. Royalty payments are received by the Trust and distributed to Trust Unit holders, net of Trust

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BP Prudhoe Bay Royalty Trust
Notes to Financial Statements (Unaudited)
(Prepared on a Modified Basis of Cash Receipts and Disbursements)
September 30, 2007

expenses, in the month succeeding the end of each calendar quarter. The Trust will terminate upon the first to occur of the following events:

a. On or prior to December 31, 2010: upon a vote of holders of not less than 70% of the outstanding Trust Units.

b. After December 31, 2010: (i) upon a vote of holders of not less than 60% of the outstanding Trust Units, or (ii) at such time the net revenues from the Royalty Interest for two successive years commencing after 2010 are less than $1,000,000 per year (unless the net revenues during such period are materially and adversely affected by certain *force majeure* events).

In order to ensure the Trust has the ability to pay future expenses, the Trust established a cash reserve account which the Trustee believes is sufficient to pay approximately one year s current and expected liabilities and expenses of the Trust.

(2) Basis of Accounting

The financial statements of the Trust are prepared on a modified cash basis and reflect the Trust s assets, liabilities, Corpus, earnings, and distributions, as follows:

a. Revenues are recorded when received (generally within 15 days of the end of the preceding quarter) and distributions to Trust Unit holders are recorded when paid.

b. Trust expenses (which include accounting, engineering, legal, and other professional fees, trustees fees, and out-of-pocket expenses) are recorded on an accrual basis.

c. Cash reserves may be established by the Trustee for certain contingencies that would not be recorded under generally accepted accounting principles.

d. Amortization of the Royalty Interest is calculated based on the units of production method. Such amortization is charged directly to the Trust Corpus, and does not affect cash earnings. The daily rate for amortization per net equivalent barrel of oil for the three months ended September 30, 2007 and 2006 was $0.41 and $0.56, respectively, and for the nine months ended September 30, 2007 and 2006 was $0.39 and $0.42, respectively. The Trust evaluates impairment of the Royalty Interest by comparing the undiscounted cash flows expected to be realized from the Royalty Interest to the carrying value, pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* If the expected future undiscounted cash flows are less than the carrying value, the Trust recognizes an impairment loss for the difference between the carrying value and the estimated fair value of the Royalty Interest.

While these statements differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America, the modified cash

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BP Prudhoe Bay Royalty Trust
Notes to Financial Statements (Unaudited)
(Prepared on a Modified Basis of Cash Receipts and Disbursements)
September 30, 2007

basis of reporting revenues and distributions is considered to be the most meaningful because quarterly distributions to the Trust Unit holders are based on net cash receipts. The accompanying modified cash basis financial statements included herein are unaudited but, in the opinion of the Trustee, include all adjustments necessary to present fairly the assets, liabilities and Corpus of the Trust as of September 30, 2007 and 2006, and the modified cash earning and distributions and changes in Trust Corpus for the three-month and nine-month periods ended September 30, 2007 and 2006. The adjustments are of a normal recurring nature and are, in the opinion of the Trustee, necessary to fairly present the results of operations.

As of September 30, 2007 and December 31, 2006, cash equivalents which represent the cash reserve consist of US treasury bills with an initial term of less than three months.

Estimates and assumptions are required to be made regarding assets, liabilities and changes in Trust Corpus resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and the differences could be material.

These unaudited financial statements should be read in conjunction with the financial statements and related notes in the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The cash earnings and distributions for the interim period presented are not necessarily indicative of the results to be expected for the full year.

(3) Royalty Interest

The Royalty Interest is comprised of the following at September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007	December 31, 2006
	(Unaudited)	
Royalty Interest (at inception)	$ 535,000	$ 535,000
Less: Accumulated amortization	(354,954)	(353,448)
Impairment write-down	(173,518)	(173,518)
Balance, end of period	$ 6,528	$ 8,034

(4) Income Taxes

The Trust files its federal tax return as a grantor trust subject to the provisions of subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, rather than as an association taxable as a corporation. The Trust Unit holders are treated as the owners of

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BP Prudhoe Bay Royalty Trust
Notes to Financial Statements (Unaudited)
(Prepared on a Modified Basis of Cash Receipts and Disbursements)
September 30, 2007

Trust income and Corpus, and the entire taxable income of the Trust will be reported by the Trust Unit holders on their respective tax returns.

If the Trust were determined to be an association taxable as a corporation, it would be treated as an entity taxable as a corporation on the taxable income from the Royalty Interest, the Trust Unit holders would be treated as shareholders, and distributions to Trust Unit holders would not be deductible in computing the Trust s tax liability as an association.

(5) Alaska Oil and Gas Production Tax

On August 20, 2006 a new Alaska oil and gas production tax (the New Tax) became effective. The New Tax replaced an oil production tax levied at the flat rate of 15% of the gross value at the point of production of taxable oil produced from a producer s leases or properties in the State of Alaska and is retroactive to April 1, 2006.

Under the New Tax, producers are taxed on the production tax value of taxable oil (gross value at the point of production for the calendar year less the producer s direct costs of exploring for, developing, or producing oil or gas deposits located within the producer s leases or properties in Alaska for the year) at a rate equal to the sum of 22.5% plus a progressivity rate determined by the average monthly production tax value of the oil produced. The progressivity portion of the New Tax is equal to 0.25% times the amount by which the simple average for each calendar month of the daily taxable values per barrel of the oil produced during the month exceeds $40 per barrel.

The Trustee and BP Alaska entered into a letter agreement (the Letter Agreement) to resolve the major issues associated with the New Tax. The Letter Agreement modified the calculation of Production Taxes in the daily Per Barrel Royalty calculation effective as of August 20, 2006. The Letter Agreement provides that the taxable value per barrel for the purpose of calculating the amount of New Tax chargeable against the Royalty Interest is the WTI Price minus Chargeable Costs as adjusted by the Cost Adjustment Factor. The tax rate for the progressivity portion of the New Tax equals 0.25% times the amount by which the simple average for each calendar month of the daily taxable values per barrel exceeds $40 per barrel. If that average taxable value per barrel is $40 or less, the progressivity rate is zero. The amount of New Tax chargeable against the Royalty Interest is the taxable value per barrel multiplied by the production allocable to the Royalty Interest, times a rate equal to the sum of 22.5% plus the progressivity rate.

(6) Royalty Revenue Adjustments

The royalty payments received by the Trust in January 2007 (with respect to the quarter ended December 31, 2006) and April 2007 (with respect to the quarter ended March 31, 2007) were adjusted by BP Alaska to compensate for underpayment of the royalty due with respect to the quarter ended September 30, 2006 and overpayment of the royalty due with

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BP Prudhoe Bay Royalty Trust
Notes to Financial Statements (Unaudited)
(Prepared on a Modified Basis of Cash Receipts and Disbursements)
September 30, 2007

respect to the quarter ended December 31, 2006, respectively. Average net production of crude oil and condensate was less than 90,000 barrels per day during each of the third and fourth quarters of 2006. Royalty payments by BP Alaska with respect to those quarters were based on estimates by BP Alaska of production levels because actual data was not available by the dates on which payments were required to be made to the Trust. Subsequent recalculation by BP Alaska of royalty payments due based on actual production data for the third and fourth quarters of 2006 resulted in the payment adjustments shown in the table below:

	Payment Received	
	January 2007	**April 2007**
Royalty payment as calculated	$ 41,470,000	$ 39,297,000
Adjustment for underpayment (overpayment), plus accrued interest	1,736,000	(47,000)
Net payment received	$ 43,206,000	$ 39,250,000

The royalty payment received by the Trust in July 2007 (with respect to the quarter ended June 30, 2007) did not require any adjustments for royalties payable with respect to the quarter ended March 31, 2007.

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Item 2. Trustee s Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement

This report contains forward looking statements (that is, statements anticipating future events or conditions and not statements of historical fact). Words such as anticipate, expect, believe, intend, plan or project, and should, could, potentially, possibly or may, and other words that convey uncertainty of future events or outcomes are intend to identify forward-looking statements. Forward-looking statements in this report are subject to a number of risks and uncertainties beyond the control of the Trustee. These risks and uncertainties include such matters as future changes in oil prices, oil production levels, economic activity, domestic and international political events and developments, legislation and regulation, and certain changes in expenses of the Trust.

The actual results, performance and prospects of the Trust could differ materially from those expressed or implied by forward-looking statements. Descriptions of some of the risks that could affect the future performance of the Trust appear in Item 1A, Risk Factors, of the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the 2006 Annual Report) and in Item 1A of Part II this report. There may be additional risks of which the Trustee is unaware or which are currently deemed immaterial.

In the light of these risks, uncertainties and assumptions, you should not rely unduly on any forward-looking statements. Forward-looking events and outcomes discussed in the 2006 Annual Report and in this report may not occur or may transpire differently. The Trustee undertakes no obligation to update forward-looking statements after the date of this report, except as required by law, and all such forward-looking statements in this report are qualified in their entirety by the preceding cautionary statements.

Liquidity and Capital Resources

The Trust is a passive entity. The Trustee s activities are limited to collecting and distributing the revenues from the Royalty Interest and paying liabilities and expenses of the Trust. Generally, the Trust has no source of liquidity and no capital resources other than the revenue attributable to the Royalty Interest that it receives from time to time. See the discussion under THE ROYALTY INTEREST in Part I, Item 1 of the 2006 Annual Report for a description of the calculation of the Per Barrel Royalty, and the discussion under THE PRUDHOE BAY UNIT AND FIELD - Reserve Estimates and INDEPENDENT OIL AND GAS CONSULTANTS REPORT in Part I, Item 1 of the 2006 Annual Report for information concerning the estimated future net revenues of the Trust. However, the Trustee has a limited power to borrow, establish a cash reserve, or dispose of all or part of the Trust Estate, under limited circumstances pursuant to the terms of the Trust Agreement. See the discussion under THE TRUST in Part I, Item 1 of the 2006 Annual Report.

In 1999, due to declines in oil prices during the fourth quarter of 1998 and the first quarter of 1999, which resulted in the Trust not receiving cash distributions for two quarters, the Trustee established a $1,000,000 cash reserve to provide liquidity to the Trust during any future periods in which the Trust does not receive a distribution. The Trustee will draw funds from the cash

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reserve account during any quarter in which the quarterly distribution received by the Trust does not exceed the liabilities and expenses of the Trust, and will replenish the reserve from future quarterly distributions, if any. The Trustee anticipates that it will keep this cash reserve program in place until termination of the Trust.

Amounts set aside for the cash reserve are invested by the Trustee in U.S. government or agency securities secured by the full faith and credit of the United States. Interest income received by the Trust from the investment of the reserve fund is added to the distributions received from BP Alaska and paid to the holders of Units on each Quarterly Record Date.

As discussed under CERTAIN TAX CONSIDERATIONS in Part I, Item 1 of the 2006 Annual Report, amounts received by the Trust as quarterly distributions are income to the holders of the Units, (as are any earnings on investment of the cash reserve) and must be reported by the holders of the Units, even if such amounts are used to repay borrowings or replenish the cash reserve and are not received by the holders of the Units.

Results of Operations

Relatively modest changes in oil prices significantly affect the Trust s revenues and results of operations. Crude oil prices are subject to significant changes in response to fluctuations in the domestic and world supply and demand and other market conditions as well as the world political situation as it affects OPEC and other producing countries. The effect of changing economic conditions on the demand for and supply of energy throughout the world and future prices of oil cannot be accurately projected.

Under the terms of the Conveyance of the Royalty Interest to the Trust, the Per Barrel Royalty for any day is the WTI Price for the day less the sum of (i) Chargeable Costs multiplied by the Cost Adjustment Factor and (ii) Production Taxes. The narrative under the captions THE TRUST Trust Property and THE ROYALTY INTEREST in the 2006 Annual Report explains the meanings of the terms Conveyance, Royalty Interest, Per Barrel Royalty, WTI Price, Chargeable Costs and Cost Adjustment Factor and should be read in conjunction with this report.

Royalty revenues are generally received on the fifteenth day of the month following the end of the calendar quarter in which the related Royalty Production occurred (the Quarterly Record Date). The Trustee, to the extent possible, pays all accrued expenses of the Trust on each Quarterly Record Date from the royalty payment received. Revenues and Trust expenses presented in the statement of cash earnings and distributions are recorded on a modified cash basis and, as a result, royalty revenues and distributions shown in such statements for the quarters and nine-month periods ended September 30, 2007 and 2006, respectively, are attributable to BP Alaska s operations during the quarters and nine-month periods ended June 30, 2007 and 2006, respectively.

The following tables show the factors which were employed to compute the Per Barrel Royalty payments received by the Trust during the nine-month periods ended September 30, 2007 and 2006 (see Note 1 of Notes to Financial Statements in Part I, Item 1). The information in the table has been furnished by BP Alaska.

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	Average WTI Price	Chargeable Costs	Cost Adjustment Factor	Adjusted Chargeable Costs	Production Taxes (1)	Average Per Barrel Royalty (2)
Nine months ended September 30, 2007:						
4th Qtr 2006	$60.17	$12.50	1.552	$19.39	$ 9.31	$31.46
1st Qtr 2007	58.17	12.75	1.567	19.98	8.66	29.54
2nd Qtr 2007	65.02	12.75	1.601	20.42	10.59	34.00
Nine months ended September 30, 2006:						
4th Qtr 2005	$60.01	$12.25	1.521	$18.63	$ 8.01	$33.37
1st Qtr 2006	63.36	12.50	1.530	19.13	8.50	35.73
2nd Qtr 2006	70.53	12.50	1.559	19.49	9.56	41.48

(1) Production Taxes for the fourth quarter of 2006 and the first and second quarters of 2007 reflect the new Alaska oil and gas production tax and the application of the Consensus Principles described below.

(2) Average per barrel royalty for the fourth quarter of 2006 and the second quarter of 2007 is calculated on the basis of preliminary estimates of 87,221 barrels and 86,917 barrels, respectively, of average daily net production

of oil and condensate from the BP Working Interests; average per barrel royalty for all other periods is calculated on the basis of 90,000 barrels of average daily net production.

Royalty Production for each day in a calendar quarter is 16.4246% of the first 90,000 barrels of the actual average daily net production of oil and condensate for the quarter from the BP Working Interests. As long as BP Alaska s average daily net production from the BP Working Interests exceeds 90,000 barrels, the principal factors affecting the Trust s revenues and distributions to Unit holders are changes in WTI Prices, scheduled annual increases in Chargeable Costs, changes in the Consumer Price Index and changes in Production Taxes. BP Alaska has advised the Trustee that, as a consequence of a program of field wide infrastructure renewal, pipeline replacement and well mechanical improvements, it anticipates that net production of oil and condensate from the BP Working Interests will be below 90,000 barrels per day on an annual average basis beginning in 2007. BP Alaska reported that average daily net production from the BP Working Interests during the quarter ended March 31, 2007 exceeded 90,000 barrels per day but was approximately 88,970 barrels per day during the quarter ended June 30, 2007.

On August 20, 2006 a new Alaska oil and gas production tax (the New Tax) became effective. The New Tax replaced an oil production tax levied at the flat rate of 15% of the gross value at the point of production of taxable oil produced from a producer s leases or properties in the State of Alaska (the Old Tax) and is retroactive to April 1, 2006. Under the New Tax, producers are taxed on the production tax value of taxable oil (gross value at the point of production for the calendar year less the producer s direct costs of exploring for, developing, or producing oil or gas deposits located within the producer s leases or properties in Alaska (Lease Expenditures) for the year) at a rate equal to the sum of 22.5% plus a progressivity rate determined by the average monthly production tax value of the oil

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produced. The progressivity portion of the New Tax is equal to 0.25% times the amount by which the simple average for each calendar month of the daily taxable values per barrel of the oil produced during the month exceeds $40 per barrel.

The Conveyance provides that Production Taxes are the sum of any severance taxes, excise taxes (including windfall profit tax, if any), sales taxes, value added taxes or other similar or direct taxes imposed upon the reserves or production, delivery or sale of Royalty Production, computed at defined statutory rates. In the case of taxes based upon wellhead or field value, the Conveyance provides that the WTI Price less the product of $4.50 and the Cost Adjustment factor will be deemed to be the wellhead or field value.

In order to resolve uncertainties in the interpretation of the Conveyance resulting from the New Tax, the Trustee entered into a letter agreement with BP Alaska (the Letter Agreement) which is incorporated as Exhibit 4.5 to this report. The Letter Agreement sets forth consensus principles agreed by the parties to resolve issues presented by the New Tax. The Consensus Principles provide that the amount of New Tax chargeable against the Royalty Interest under the Conveyance is determined as follows:

a) The taxable value per barrel equals the WTI Price minus the Chargeable Costs as adjusted by the Cost Adjustment Factor.

b) The tax rate for the progressivity portion of the New Tax equals 0.25 percentage points times the amount by which the simple average for each calendar month of the daily taxable values per barrel under a) above exceeds $40 per barrel. If that average taxable value per barrel is $40 or less, the progressivity rate is zero. The $40 figure is not subject to adjustment over time.

c) The amount of New Tax chargeable against the Royalty Interest equals the taxable value per barrel under a) above times the Royalty Production under the Conveyance, times a rate equal to the sum of 22.5% plus the progressivity rate determined under b) above.

BP Alaska estimates Royalty Production from the BP Working Interests for purposes of calculating quarterly royalty payments to the Trust because complete actual field production data for the preceding calendar quarter generally is not available by the Quarterly Record Date. To the extent that average net production from the BP Working Interests is below 90,000 barrels per day in any quarter, calculation by BP Alaska of actual Royalty Production data may result in revisions of prior Royalty Production estimates. Revisions by BP Alaska of its Royalty Production calculations may cause BP Alaska to adjust its quarterly royalty payments to the Trust to compensate for overpayments or underpayments of royalties with respect to prior quarters. Such adjustments, if material, may adversely affect certain Unit holders who buy or sell Units between the Quarterly Record Dates for the Quarterly Distributions affected.

The Quarterly Distributions received by the Trust from BP Alaska in January and April 2007 were adjusted by BP Alaska to compensate for underpayment of royalties with respect to the quarter ended September 30, 2006 and overpayment of royalties with respect to the quarter ended December 31, 2006. See Note 6 of Notes to Financial Statements (Unaudited) in Item 1. Because the statements of cash earnings and distributions of the Trust are prepared on a modified

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cash basis, royalty revenues for the quarters ended March 31 and June 30, 2007 reflect the amounts of the adjustments with respect to the earlier fiscal periods.

Three Months Ended September 30, 2007 Compared to
Three Months Ended September 30, 2006

As explained above, Trust royalty revenues received during the third quarter of the fiscal year are based on Royalty Production during the second quarter of the fiscal year. Royalty revenues received by the Trust in the quarter ended September 30, 2007 decreased 20.9% from the revenues received in the quarter ended September 30, 2006, reflecting a 7.8% period-to-period decrease in the Average WTI Price from $70.53 per barrel during the quarter ended June 30, 2006 to $65.02 per barrel during the quarter ended June 30, 2007. Revenues also were adversely affected by a 6.7% period-to-period increase in total deductible costs from $29.05 per barrel to $31.01 per barrel, principally due to Production Taxes, which increased 10.8% period-to-period despite the decrease in the Average WTI Price. Production Taxes charged against the Per Barrel Royalty in the quarter ended June 30, 2007 reflected the effect of the new Alaska oil and gas production tax, while Production Taxes charged during the quarter ended June 30, 2006 were computed at the former 15% flat tax rate. Cash earnings in the third quarter of 2007 decreased 21.9% from the corresponding quarter of 2006 as a result of the decrease in revenues discussed above and also as a result of a 175.6% increase in Trust administrative expenses, principally due to legal fees and expenses incurred defending a class action lawsuit. See Item 3 of the Annual Report and Item 1 in Part II of this report for information concerning this matter.

Nine Months Ended September 30, 2007 Compared to
Nine Months Ended September 30, 2006

Trust royalty revenues decreased 14.9% in the nine months ended September 30, 2007 from the corresponding period of 2006. The decrease reflected the cumulative effect of a slight decrease in the Average WTI Price during the nine-month period ended June 30, 2007 from the nine-month period ended June 30, 2006, but was principally due to a 9.6% period-to-period increase in Production Taxes and a 4.4% period-to-period increase in Adjusted Chargeable Costs charged against the Per Barrel Royalty during the nine months ended June 30, 2007. The decrease in revenues during the first nine months of 2007 was slightly offset by the net positive effect of compensatory adjustments by BP Alaska in its January and April royalty payments (see Note 6 of the Notes to Financial Statements (Unaudited) in Item 1). Cash earnings, which fell 15.3% during the nine months ended September 30, 2007 from the corresponding period of 2006, were affected by an 81.4% period-to-period increase in Trust administrative expenses related to the litigation referred to above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Trust is a passive entity and except for the Trust s ability to borrow money as necessary to pay liabilities of the Trust that cannot be paid out of cash on hand, the Trust is prohibited from engaging in borrowing transactions. The Trust periodically holds short-term investments acquired with funds held by the Trust pending distribution to Unit holders and funds held in reserve for the payment of Trust expenses and liabilities. Because of the short-term nature of these investments and limitations on the types of investments which may be held by the Trust, the Trust is not subject to any material interest rate risk. The Trust does not engage in

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transactions in foreign currencies which could expose the Trust or Unit holders to any foreign currency related market risk or invest in derivative financial instruments. It has no foreign operations and holds no long-term debt instruments.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Trustee has disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. These controls and procedures include but are not limited to controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Exchange Act is accumulated and communicated to the responsible trust officers of the Trustee to allow timely decisions regarding required disclosure.

Under the terms of the Trust Agreement and the Conveyance, BP Alaska has significant disclosure and reporting obligations to the Trust. BP Alaska is required to provide the Trust such information concerning the Royalty Interest as the Trustee may need and to which BP Alaska has access to permit the Trust to comply with any reporting or disclosure obligations of the Trust pursuant to applicable law and the requirements of any stock exchange on which the Units are listed. These reporting obligations include furnishing the Trust a report by February 28 of each year containing all information of a nature, of a standard and in a form consistent with the requirements of the SEC respecting the inclusion of reserve and reserve valuation information in filings under the Exchange Act and with applicable accounting rules. The report is required to set forth, among other things, BP Alaska s estimates of future net cash flows from proved reserves attributable to the Royalty Interest, the discounted present value of such proved reserves, the assumptions utilized in arriving at the estimates contained in the report, and the estimate of the quantities of proved reserves (including reductions of proved reserves as a result of modification of BP Alaska s estimates of proved reserves from prior years) added during the preceding year to the total proved reserves allocated to the BP Working Interests as of December 31, 1987.

In addition, the Conveyance gives the Trust and its independent accountants certain rights to inspect the books and records of BP Alaska and discuss the affairs, finances and accounts of BP Alaska relating to the BP Working Interests with representatives of BP Alaska; it also requires BP Alaska to provide the Trust with such other information as the Trustee may reasonably request from time to time and to which BP Alaska has access.

The Trustee s disclosure controls and procedures include ensuring that the Trust receives the information and reports that BP Alaska is required to furnish to the Trust on a timely basis, that the appropriate responsible personnel of the Trustee examine such information and reports, and that information requested from and provided by BP Alaska is included in the reports that the Trust files or submits under the Exchange Act.

As of the end of the period covered by this report, the trust officers of the Trustee responsible for the administration of the Trust conducted an evaluation of the Trust s disclosure controls and

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procedures. Their evaluation considered, among other things, that the Trust Agreement and the Conveyance impose enforceable legal obligations on BP Alaska, and that BP Alaska has provided the information required by those agreements and other information requested by the Trustee from time to time on a timely basis. The officers concluded that the Trust s disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

There has not been any change in the Trust s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the Trust s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting.

Item 4T. Controls and Procedures.

Not applicable.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

Item 3 in Part I of the Trust s 2006 Annual Report contains information concerning a complaint filed on November 7, 2006, in the United States District Court for the District of Alaska (case number 3:06-CV-00260 TMB), purportedly as a class action by the plaintiff, Michael Goldman, on behalf of the public holders of Units in the Trust, against BP, the Trust, BP Alaska, Standard Oil and other unnamed defendants.

On April 26, 2007 the plaintiff filed a notice with the District Court of the voluntary dismissal, without prejudice, of the Trust from the suit. On September 18, 2007, the District Court issued an order and opinion in which it found that the plaintiff lacked standing to bring suit directly and dismissed all of the plaintiff s claims against BP, BP Alaska and Standard Oil without prejudice.

Item 1A. Risk Factors

There are no material changes in the risk factors previously disclosed in Item 1A of Part I of the Trust s 2006 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

(a) On October 15, 2007 the Trust received a cash distribution of $50,698,047 from BP Alaska with respect to the quarter ended September 30, 2007. The distribution included $1,061,954 to compensate the Trust for underpayment of royalties due, plus interest on the underpayment, with respect to the quarter ended June 30, 2007. On October 18, 2007, after adding interest income received from investment of the cash reserve and deducting Trust administrative expenses, the Trustee distributed $50,359,703 (approximately $2.3533 per Unit) to Unit holders of record on October 16, 2007 (Form 8-K, Item 8.01).

(b) Not applicable.

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Item 6. Exhibits.

4.1 BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee.

4.2 Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company.

4.3 Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust.

4.4 Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The Standard Oil Company and BP Prudhoe Bay Royalty Trust.

4.5 Letter agreement dated October 13, 2006 between BP Exploration (Alaska) Inc. and The Bank of New York, as Trustee.

31 Rule 13a-14(a)/15d-14(a) Certification.

32 Section 1350 Certification.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BP PRUDHOE BAY ROYALTY TRUST

By: THE BANK OF NEW YORK,
as Trustee

By: /s/ Remo Reale

Remo Reale
Vice President

Date: November 9, 2007

The registrant is a trust and has no officers or persons performing similar functions. No additional signatures are available and none have been provided.

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INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
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31.	Rule 13a-14(a)/15d-14(a) Certification.
32	Section 1350 Certification.

* Incorporated by reference to the correspondingly numbered exhibit to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (Commission File No. 1-10243).

** Incorporated by reference to the correspondingly numbered exhibit to the registrant s Quarterly Report on Form 10-Q

for the quarter ended September 30, 2006 (Commission File No. 1-10243).